BOSTON AND MAINE RR.

129TH ANNUAL REPORT

1961

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TRANSFER AGENTS

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Old Colony Trust Company, 45 Milk Street, Boston
The Hanover Bank, 70 Broadway, New York

President McGinnis

President's Message to the Stockholders:

The Boston and Maine Railroad's operations in 1961 produced a deficit, as did all of the other seven large Eastern passenger-carrying railroads (page 21). Our deficit was the smallest of the eight railroads, and with the exception of the Pennsylvania, the Boston and Maine was the only railroad (excluding non-operating income) to decrease its deficit.

Our long-range program, started in 1956, of selling or retiring passenger stations, land, freight houses, shops and engine houses no longer necessary for the operation of the Railroad, has resulted in cumulative savings of over $22 million. The program showed savings of over $7 million in 1961.

In the very important ratio of wages charged to operating expenses, the Boston and Maine, with a ratio of 53.21%, ranked 33rd in 1956, when compared with the other large railroads in the United States. In 1960 this ratio was 44.80% and our rank was 7th. In 1961 our ratio was 43.62% and when the final figures for the other railroads are available, the Boston and Maine will have retained its rank and perhaps improved it.

In railroad operation, perhaps the most important ratio is the operating ratio; i.e. the percentage of operating expenses to operating revenue. In 1956, among the 36 large railroads in the United States, the Boston and Maine performance was close to the bottom—our rank was 33rd.

The Boston and Maine operating ratio for 1961 was 76.66%. As outlined on page 14, our ratio had so improved that we ranked 12th among the largest railroads in the United States, outside of New England, and it was an improvement over the 79.21% ratio in 1960. The Boston and Maine ranked first among the six New England railroads.

Despite the 1961 tight cash situation, our net fixed debt including equipments was reduced $3,491,956 in 1961.

The fixed charges of this railroad are relatively high, as noted on page 19. Compared with the other large railroads in the United States, our fixed charges ratio to operating revenues is over twice the average. This is one of the problems which management must correct, and we hope to make substantial progress in this direction in 1962 and 1963.

Being a terminal railroad, the net rents we pay for the use of freight equipment are relatively high, running in 1961 to $7,192,332. Very substantial progress will be made in 1962 in reducing this amount, but the long range solution is through merger with one of the proposed trunk line systems.

The real unsolved problem with the Boston and Maine is the same problem which concerns the entire railroad industry. In this country, strict federal regulations apply to 30% of the transportation industry, while 70% avoids such regulation. A rational national transportation policy is obviously impossible when the regulatory body has supervision of only 30% of the national transportation. To add to our difficulties, there is still strong competition among the railroads themselves, and between the railroads and the regulated common carrier trucks. There is hope for the railroad industry, however, because 1962 may mark the beginning of the elimination of certain inequities and inequalities which are known to everyone, but about which very little has ever been done.

The first step in the right direction could be the report of the Presidential Commission, which has been studying "featherbedding" in the railroad in-

dustry for over a year. The report was released February 28, 1962, and recommends possible solutions of this very costly problem. A somewhat similar method was used successfully in Canada a couple of years ago.

The second step could be the recommendations of the President in his message on transportation which we understand will be sent to the Congress in March or April. Congressional action, of course, will depend a great deal upon the President's recommendations but the railroad industry hopes it will contain suggestions to enable the railroads to free themselves from the straitjacket of an inflexible rate structure whereby railroads cannot compete with the unregulated 70%. The industry hopes the President will also recognize and suggest the correction of many other inequalities and inequities which exist.

The third step could be a further message from the President concerning mass transportation, which the Congress with the approval of the President last year put under the umbrella of urban redevelopment. A start was made in 1961 whereby the federal government through matching grants and loans would contribute to the solution of the passenger commuter deficit. We believe that the present law plus its supplementation perhaps through the suggestions in the anticipated presidential message will eliminate for the railroads in 1962, and most certainly in 1963, their passenger commuter deficit.

The Boston and Maine plan is to cooperate with the Mass Transportation Commission of the Commonwealth of Massachusetts and the Federal Government in a demonstration project whereby the Federal and State Governments by a ⅔ federal grant and a ⅓ state grant would ask the Boston and Maine to continue the commuting business for a limited period, with increased service and reduced fares. The cost of such demonstration would be paid by the Federal and State Governments. Legislation covering this project was passed by the Federal Congress in 1961 and is now pending before the Massachusetts Legislature.

If such Massachusetts legislation does not materialize, the alternate plan of the Boston and Maine management is to file for complete elimination of the passenger deficit with the appropriate regulatory bodies on April 1, 1962 and if necessary, subsequently with the I.C.C.

The fourth step is now taking place, in the form of mergers. It begins to look as if most of the railroads in the east will end up in the proposed eastern trunk line systems. New England can not and should not be excluded from the mergers that are now being put together. We believe that New England should be served by two of the three large proposed eastern trunk line mergers.

We have reason to expect that the Boston and Maine will be invited to join with one of the large proposed eastern systems.

We believe, for the above reasons, that the stockholders of this railroad have some encouraging developments to anticipate in 1962.

Sincerely,

Patrick B. McGinnis

March 2, 1962

President

REVIEW OF 1961

FREIGHT BUSINESS

Freight revenue in 1961 was $56,133,995, or 0.8% lower than in 1960. Average revenue per ton declined from $3.75 in 1960 to $3.41 in 1961 and average revenue per ton mile from 2.158¢ to 2.011¢. Volume as expressed in number of tons carried showed an increase of 9.2% and revenue ton miles increased 6.5%. These increases in volume and reductions in revenue per ton and per ton mile were the direct result of a large movement of earth fill in trainload lots from a point in New Hampshire into the Boston area for a road construction project.

The first three months of 1961 were unfavorable because of depressed business conditions and also reduced activity resulting from an abnormally severe winter. The situation improved gradually as the year progressed and freight revenue showed small increases as compared with the previous year beginning with the month of May. These increases, however, were not sufficient to offset the substantial declines early in the year. Unsatisfactory market conditions resulting in an abnormally small movement of potatoes from the State of Maine also reduced our traffic during the winter and early spring. The movement of paper and paper products, which is our largest revenue producer, showed considerable weakness early in the year, but improved steadily as the year progressed.

The opening of a pipe line from New Haven, Conn., to Chicopee, Mass., in the fall, eliminated our handling of a large movement of airplane fuel to Westover Field. We have been successful in stemming the loss of cement traffic through rate reductions and unloading allowances to bulk receivers. Several companies are now installing facilities in the Boston area for the receipt of cement by water and this represents a further threat to our handling of this traffic.

Reference was made to the movement of fill in trainload lots into the Boston area. This fill is being used in the construction of Interstate Route 93 where it crosses the Mystic River in the Medford-Somerville area. The material moves from a pit in Madbury, N. H., formerly owned by the Railroad, and during the period from May to December we handled over 20,000 cars, producing more than $750,000 in revenue. The movement will be resumed in the spring and is expected to continue until the fall of 1962.

We have also published multi-car rates on sand and gravel as a means of securing the haul on materials which have previously moved to concrete manufacturers in the greater Boston area almost entirely by truck or water. We anticipate that there will be an expansion of this class of traffic, which we are promoting wherever cost studies indicate that net revenue can be secured. We have been handling heavy construction materials in substantial quantities for highway and building projects. The use of such materials will increase greatly in the Boston area as work on the new Government Center gets underway and the Prudential and West End projects are expanded. There will be further major highway construction on Route 495 between Worcester and the mouth of the Merrimack River and on Route 93 as it enters the Boston area.

We have had a dependable two-day service westbound from Boston to Chicago, but prior to the fall of 1961 have had no comparable service eastbound. As a result of negotiations with our connections and an extensive field survey a dependable second day eastbound service from Chicago to Boston was instituted in October. This is especially helpful in the handling of piggyback traffic which has shown an encouraging trend and furnishes the versatility so necessary in today's competitive transportation market.

The Sanford and Eastern Railroad, running from Sanford, Me., into the Portland area, was abandoned in 1961. Operations on the Rutland Railway stopped on September 25 as a result of a strike and application has been filed for abandonment of this road. Though these developments have caused some changes in the handling of traffic they have had little effect on our revenue up to this time.

An encouraging development recently occurred in the Port Parity Case which involves our attempt to eliminate the import-export freight rate differential at Boston. On February 16, 1962, the U. S. District Court for Massachusetts reversed the order of the Interstate Commerce Commission which had directed cancellation of our differential-eliminating rates. If this decision is sustained by the U. S. Supreme Court substantial additional traffic should be attracted to our lines. Robert G. Bleakney, Jr., General Attorney of the Railroad, represented the railroads serving Boston throughout these proceedings.

PIGGYBACK

Piggyback volume continues to grow. In a disappointing first half of 1961, due largely to a general decline in the nation's business, our total piggyback volume was only 2% greater than the corresponding first half of the previous

Mobile gantry cranes used for loading and unloading piggyback trailers in Boston Piggyback Yard. Cranes eliminate use of time consuming, end of car loading and unloading, and also permit selective handling of priority trailer loads

year. An upturn in the economy contributed to a 10% rise in late 1961, resulting in a combined increase of 6.2% in 1961 over 1960. The last quarter of 1961 ran 16.8% over the last quarter of 1960 and the trend is continuing.

The handling of motor common carrier trailers, the smallest segment of our total piggyback operations, (14% in 1961) was down 29% in the first half, up 22% in the second half as compared with like periods in 1960. Plan II traffic, door-to-door service to and from individual railroad freight patrons with railroad owned or leased trailers, was down 9% in the first half but up 7% in the second half of 1961, a total decline of 1.4% under 1960. The Plan III trailer volume, produced by consolidators, freight forwarders, shipper associations and cooperatives, increased 14.3% in 1961 over the previous year. At mid-year the I.C.C. had made a favorable decision in the Plan III rate case which had been strongly opposed by motor common carrier interests.

On May 1, 1961, your management established a Piggyback Department under a staff officer, C. F. Yardley, General Manager—Piggyback, to be responsible for and coordinate all phases of trailer-on-flat-car services. This assignment includes direct responsibility for sales, terminal operations, new facilities, flat car and trailer supply, and liaison with other line officers regarding train and switching service, engineering, and mechanical requirements to accommodate uninterrupted increases in this segment of our freight revenue.

View of new Boston Piggyback Yard, placed in operation in 1961. By mid-1962 capacity will be expanded to five tracks, with capacity of 174 trailers

Late in 1961, an entirely new facility, designed exclusively for piggyback operations, was placed in service at East Cambridge. Two new mobile gantry cranes had been purchased to coincide with terminal design. The time consuming use of tractors for end-ramp loading and unloading of trailers to and from freight cars had been eliminated. Now, inbound trailers are "grounded" from cars and outbound trailers are loaded to cars by a bottom lift gantry crane spanning a piggyback track. The system affords selective unloading; thus, trailer loads of fresh meat, for example, are given priority attention to provide earliest possible delivery following terminal arrival. Other trailers are "grounded" in the sequence desired in accordance with receiver requirements. The costs of turning cars and preparing cars for car-end unloading, dropping car end-plates, stanchion chains, jacks, etc. are all eliminated in this new facility. By mid-1962 it is expected that two additional piggyback tracks in this terminal will be in service. This will provide a 174-trailer capacity in the five-track terminal.

Line clearances between Mechanicville and East Cambridge, will have been increased by March, 1962, to accommodate loaded auto highway transporters on piggyback flat cars, an account that should contribute $250,000 per year to our freight revenue. With the construction of the Worcester Expressway in 1962, our present Garden Street piggyback track will be relocated to a site adjacent to the joint NH-B&M train yard in South Worcester.

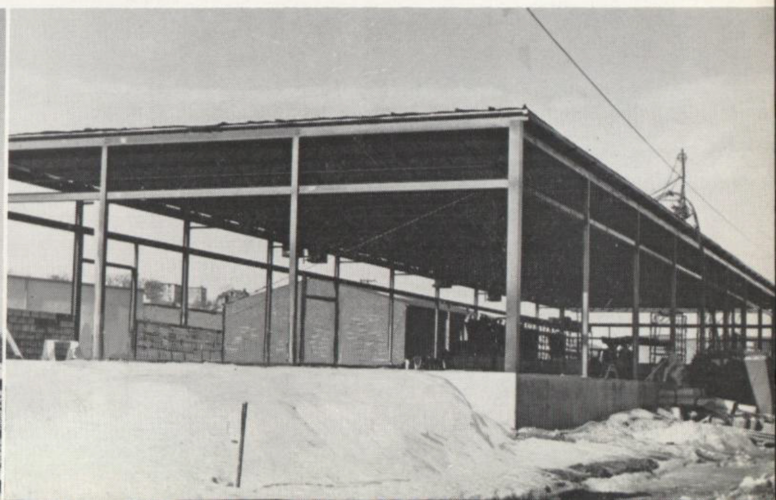
INDUSTRIAL DEVELOPMENT

New plant facilities of substantial proportions involving approximately one million square feet of building area were completed during 1961 from which the Railroad should realize approximately 10,500 carloads per year.

Additional space approximating 500,000 square feet, which is now under construction or scheduled for completion in 1962, is expected to result in added rail traffic of about 3,000 cars per year. Some 22,000 feet of trackage has been installed to serve these new plant facilities.

The Lechmere Development Project in East Cambridge, Mass., has made much progress with the completion of modern plants for Federal Liquors,

Recent industrial construction on the Boston and Maine includes (left) this plant for General Dynamics Co. at Tewksbury, Mass., for manufacturing oxygen, nitrogen and argon, and (right) a new warehouse for the Worcester Telegram Publishing Co., on former Boston and Maine property in Worcester, Mass., for handling and storing newsprint



Ltd., Shawmut Glass Containers Co., and Penick and Ford, Ltd. Construction also has been started on a new freight house in East Cambridge which will be occupied in part by Acme Fast Freight, Inc., freight forwarders.

Industrial development of the former yard area in Charlestown-Somerville, Mass., has continued to expand, with the starting of construction of a new 60,000 square foot warehouse for Allied Plywood Co., and completion of engineering plans for a new 50,000 square foot plant to start in the Spring of 1962 for Price Brothers, liquor distributors.

One new industrial development project involved the acquisition by Owens Illinois Glass Co., of the vacant 100,000 square foot building in Newburyport, Mass., formerly owned by CBS. Owens Illinois Glass Co., will use this plant for the manufacture of plastic bottles and containers. The plant is served by a ten-car sidetrack.

In Saco, Maine, the Railroad co-

Photos, top to bottom

New East Cambridge plant of Penick & Ford, Ltd., processers and distributors of corn syrup products

Webster Cement Company's new plant in Wilmington, Mass., for the production of industrial adhesives

New plant of Deerfield Plastic Co., Inc., in South Deerfield, Mass., for manufacturing plastic products

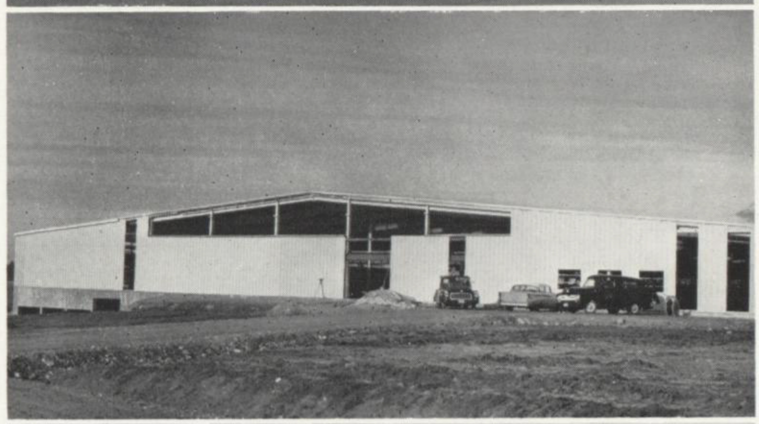
Davidson Rubber Company's new plant in Dover (N.H.) Industrial Park, on Boston and Maine sidetrack

Sugarman Bros. (Leonard Tissue Corp.), in Medford Mass., recently expanded by 72,000 sq. ft. for manufacturing paper products

operated in the opening of a 150-acre industrial potential as the Saco Industrial Park neared completion of its first major unit. This plant, an 80,000 square foot building for Lynn Innersole Co., will be served, along with planned future plants, through lead track installed in the park by the Boston and Maine. In the new Dover, N. H., Industrial Park, plant facilities served by sidetrack have been completed for Davidson Rubber Co. The total floor space involves about 88,000 square feet.

The Railroad sold 16 acres of its former Yards 21-22 property in Somerville, Mass., for the development of an industrial park which is expected to take form by mid-1962.

An analysis of the actual volume of traffic handled by 20 industries which have recently constructed plants or expanded their operations on the Boston and Maine, showed that 7,578 cars were handled by these concerns during the period of study in 1961, with a projected traffic volume of 11,300 cars annually from these concerns.



Photos, top to bottom

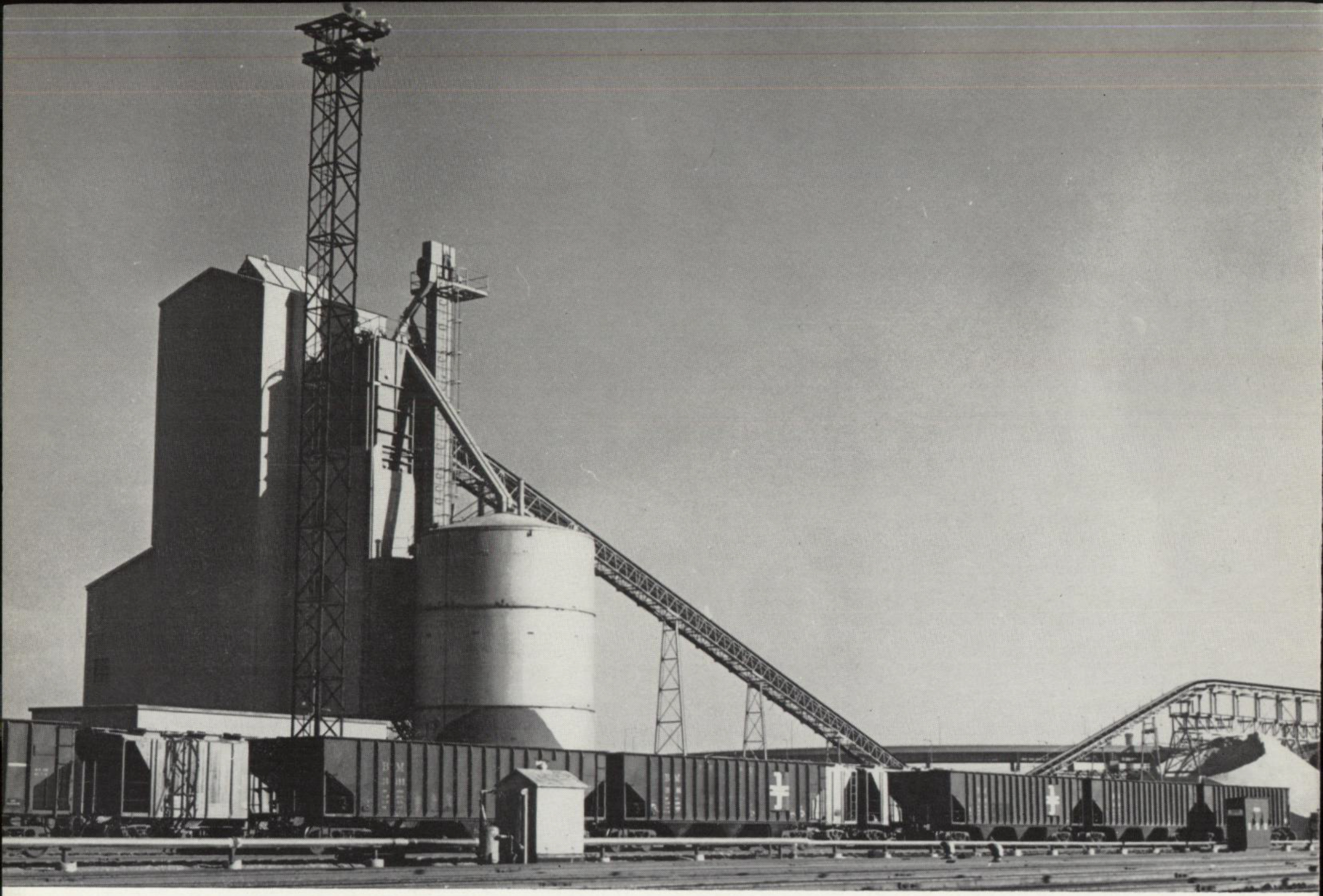
New 120,000 sq. ft. manufacturing plant of Guild Plastics, Inc., division of Maryland Cup Corp., at Wilmington, Mass.

Federal Liquors, Ltd., new distributing plant and bonded warehouse in East Cambridge, Mass.

First building in new Saco, Maine, Industrial Park is this 80,000 sq. ft. manufacturing plant for Lynn Innersole Co.

New warehouse for Shawmut Glass Co. in East Cambridge, Mass.

International Purchasing Co.'s new building at Ayer, Mass., for processing rope



Boston Sand and Gravel Co.'s modern cement processing plant in former Passenger Yard 1

The accounts studied, a representative cross section of industry, were:

Boston Sand & Gravel Co., Cambridge	Atlantic Stores, Cambridge
American Sugar Co., Boston	Penick & Ford, Ltd., Cambridge
International Salt Co., Boston	Shawmut Glass Co., Cambridge
Dragon Cement Co., Wilmington	C. A. Cross Co., Lunenberg
New England Power Co., Worcester	IBM Corp., West Concord
Ralston Purina Co., So. Ashburnham	Ward Meat Co., Malden
Buy Rite Whlsle. Grocers, Lawrence	Hume Pipe Co., Merrimack, N. H.
Food Ctr. Whlsle. Grocers, Boston	United National Coop., Woburn
Boston Paper Board Co., Somerville	Cressey Dockham Co., Salem
Stevens Thompson Co., Mechanicville, N. Y.	DiMare Bros., Arlington

It is reasonable to expect that the projected annual figure of 11,300 cars may be exceeded as some of these concerns are still in their growth period.

PASSENGER BUSINESS

Total passenger revenue declined from $5,872,616 in 1960 to $5,138,071 in 1961, a decrease of 12.5%. Total passengers carried declined from 6,598,603 in 1960, to 5,938,306 in 1961. The decrease in riding was accelerated by major highway improvements, particularly Interstate Routes 3 and 93.

Reduction of passenger train service was effected in 1961 including complete elimination of service on the Conway Branch between Dover, N. H.

Former passenger station location in Concord, N.H., now a spacious shopping center. Passenger station was located just above center of picture, at point of bulge on left side of black-topped parking area. Streamlined new station is close to top right corner of parking area. Large white building just left of bend in railroad track is new J. J. Newberry Co. store, largest in a rapidly developing complex of department, food and variety stores

and North Conway, N. H. and on the Berlin Branch between Wells River, Vt. and Berlin, N. H.

The Interstate Commerce Commission held hearings December 11th to 13th, on the Railroad's proposed discontinuance of four Connecticut River Line trains. A decision is pending.

A further reduction has been made in the passenger deficit which amounted to $4,088,000* in 1961 compared to $15,029,987 in 1951. The management is making plans to eliminate the passenger deficit.

As stated in the President's Message, the first plan is to cooperate with the Mass Transportation Commission of the Commonwealth of Massachusetts and the Federal Government in a demonstration project whereby the Federal and State Governments by a ⅔ federal grant and a ⅓ state grant would ask the Boston and Maine to continue the commuting business for a limited period, with increased service and reduced fares. The cost of such demonstration would be paid by the Federal and State Governments. Legislation covering this project was passed by the Federal Congress in 1961 and is pending before the Massachusetts Legislature.

If such Massachusetts legislation does not materialize, the alternate plan of the Boston and Maine management is to file for complete elimination of the passenger deficit with the local regulatory bodies on April 1, 1962, and if necessary, subsequently with the I.C.C.

The following table shows the reductions made in the passenger deficit and in passenger train miles operated since 1951:

Reduction of Passenger Deficit

	Passenger Train Miles	*Percent Decline vs. 1951*	*Net. Rwy. Oper. Deficit (I.C.C. Formula)*	*Percent Decline vs. 1951*
1961	2,777,658	53.9	$4,088,000*	72.8
1960	3,236,534	46.3	4,971,202	66.9
1959	3,478,332	42.3	7,387,693	50.8
1958	4,391,400	27.1	9,635,997	35.9
1957	5,530,409	8.2	12,590,280	16.2
1956	5,880,948	2.4	13,678,564	9.0
1955	5,892,511	2.2	12,250,363	18.5
1954	6,055,976	I 0.5	15,159,263	I 0.9
1953	5,975,336	0.8	12,976,419	13.7
1952	5,906,967	2.0	12,194,543	18.9
1951	6,026,738	-	15,029,987	-

I — Percent Increase
*11 months actual, December estimated

OPERATING RESULTS

Operating revenues amounted to $66,031,162, or 2.4 per cent less than the $67,644,511 realized in 1960. Operating expenses were $50,621,112, or 5.5 per cent less than the 1960 expenses of $53,581,988. Operating revenues of railroads in the Eastern District in 1961 decreased 6.1 percent compared with 1960, and operating expenses decreased 4.5 percent.

Net railway operating income increased to $2,668,705 from $1,715,116 reported a year earlier. After non-operating income, $2,679,933 remained available for fixed charges compared with $1,734,725 in 1960. After fixed and contingent charges, the net deficit was $3,279,716 compared with a net deficit of $3,847,209 in 1960.

Gross ton miles in the year 1961 increased 1.9% over 1960, while net ton miles were greater by 6.2%.

Freight train operating efficiency as measured by gross ton miles per train hour in 1961 was the best performance in the history of the railroad.

The Company's 1961 operating ratio of 76.66% was among the lowest in the railroad industry. Of the large railroads outside of New England it ranked 12th, advancing from 17th position occupied in 1960, when its ratio was 79.21%. The Company ranked first of the six New England companies in 1961 and in 1960. This operating record of the Boston and Maine is even more impressive, in that there is little deferred maintenance and the property, both road and equipment, is in good condition to serve as an efficient medium of transportation.

New brush cutter at work near Canaan, N. H. Cutters extend at both sides of track, clearing brush close to ground, including trees nearly four inches in diameter

Operating Ratios For the 36 Major Class I Railroads

36 Railroad Companies Other Than New England, but Including Boston and Maine	1961 Percent	1961 Rank	1960 Percent	1960 Rank
Atch., Top. & Santa Fe.	77.21	15	78.51	12
Atlantic Coast Line	77.83	17	80.40	21
Baltimore & Ohio	86.65	33	82.23	27
BOSTON & MAINE	76.66	12	79.21	17
Cent. RR of N J	86.19	31	82.54	28
Chesapeake & Ohio	81.21	27	77.11	9
Chic. Burlington & Quincy	79.44	22	81.21	23
Chic. & Eastern Illinois	79.72	24	83.99	31
Chic. Milw., St. P. & Pac.	79.29	21	81.58	25
Chic. & North Western	81.08	26	85.73	34
Chic. R. I. & Pacific	78.94	19	80.17	20
Delaware & Hudson	81.03	25	81.48	24
Denver & R. G. Western	65.73	3	66.24	3
Erie-Lackawanna	91.06	35	88.12	35
Great Northern	79.44	23	78.87	15
Gulf, Mobile & Ohio	76.16	11	79.12	16
Illinois Central	79.12	20	81.14	22
Kansas City Southern	59.38	2	59.81	2
Lehigh Valley	95.75	36	91.39	36
Louisville & Nashville	77.06	14	81.90	26
Mo.-Kans.-Texas	75.76	10	75.64	7
Missouri Pacific	74.44	7	76.74	8
New York Central	85.52	30	84.15	32
N. Y., Chic., & St. L.	75.06	8	71.65	5
Norfolk & Western	57.74	1	59.73	1
Northern Pacific	86.60	32	84.54	33
Pennsylvania	81.92	28	82.81	29
Reading	88.30	34	83.34	30
St. Louis-San Francisco	77.84	18	78.47	11
Seaboard Air Line	76.76	13	78.75	14
Southern Pacific	75.56	9	77.43	10
Southern Railway	70.82	4	69.96	4
Union Pacific	72.26	5	72.79	6
Wabash	77.51	16	78.69	13
Western Maryland	84.58	29	79.80	19
Western Pacific	74.16	6	79.66	18

Six New England Railroads—Comparison

Bangor & Aroostook	90.08	4	88.07	3
BOSTON & MAINE	76.66	1	79.21	1
Central Vermont	87.91	3	88.50	4
Maine Central	81.33	2	80.38	2
N. Y., N. H. & Hartf.	96.27	5	90.32	5
Rutland	103.82	6	100.78	6

AGENCIES

The Railroad has had the following related programs in effect:

1. Consolidation of freight agencies.
2. Reduction in number of ticket agencies.
3. Combination of freight and ticket agencies.
4. Reduction in number of agencies handling LCL traffic.

In addition, a new LCL transfer was opened at East Deerfield, Mass., in January, 1961, which eliminated all other LCL transfers on the System.

These programs, plus the opening of the new transfer, produced a reduction in agency costs of $580,000 in 1961, compared with 1960. The programs will be continued through 1962.

PLANT AND EQUIPMENT IMPROVEMENTS

Stone ballast was applied to 11.8 miles of main line track in 1961, as compared with 51.6 miles done in the previous year. In addition, 58.4 single track miles of stone-ballasted main track were resurfaced. These ballasting and resurfacing projects required the use of 48,235 tons of stone.

New and relay rail laid during the year totaled 4,319 tons; while 53,116 cross ties (new and relay) were installed.

Seventy-six single track miles of track were physically retired from service and, under the Railroad's program of single tracking, one track of former double track line was removed as follows: 7.0 miles between Gardner and Royalston, Mass., 7.0 miles from Charlemont to Hoosac Tunnel, Mass.; 5.7 miles from Grand Beach to Rigby, Maine; and 19.7 miles between Worcester (Summit) and Harvard, Mass.

Twenty-three public highway crossings were eliminated and automatic highway crossing protection devices were installed at 18 public crossings.

Elimination of manual protection at public crossings in 1961 made an annual saving of $297,000 to the Company. Similar projects approved in 1961 and now under way will accomplish further annual savings of $191,000. Additional annual savings of $113,000 can be achieved if favorable decisions are obtained on petitions filed in 1961 and now pending.

During the year, 23 private grade crossings were closed, making a total of 891 such crossings eliminated since inception of the vitally important program to eliminate private grade crossings five years ago.

Signal and communication improvements in 1961 included the installation of one modern car retarder at Mechanicville, N.Y.; necessary signal changes at Tower "A", Boston, because of discontinuing use of two spans of Draw 1; new type aerial signal cable installed at Charlemont and Lowell, Mass.; improved braking distances for signals on the Connecticut River line between Bellows Falls, Vt., and Claremont Jct., N.H.; and a base radio station installed at Lawrence, Mass., for yard radio system.

Yard facility improvements during the year included: completion of work on installation of new piggyback yard facilities at East Cambridge, Mass., and new piggyback facility and freight yard at Manchester, N.H.; construction of new transfer facility at East Deerfield, Mass.; new freight house at Concord, N.H.; new combined freight and yard office at Mystic Jct., Somerville, Mass.; and new office building and meat platform in Yard 20, Charlestown, Mass.; installation of paving at Yards 13, 14, 20 and 21 in the Boston area, and a depressed driveway at Arsenal Street Yard, Watertown, Mass.

A total of 14 new units of major work equipment and roadway machines was purchased during the year, in addition to miscellaneous small machines and tools, all designed to provide increased productivity.

The railroad took delivery of six new 1800 HP GP-18 locomotives from the Electro Motive Division of General Motors.

To increase the car fleet for gravel service, 71 reconditioned 50 ton hopper cars were purchased. These will be converted to 70 ton cars.

BRANCH LINES

Operations on the many Branch Lines of this Railroad have been reorganized during the last few years so that the costs of operation and maintenance are in line with freight revenues. A special study group has been delegated the responsibility of reviewing such operations every six months and of reporting to management their recommendations as to continuance or abandonment.

In 1961 abandonments of branch lines were made as follows: 3.6 miles of Woburn Loop from Woburn to North Woburn Jct., and 4.0 miles of the Swampscott Branch-Swampscott to Marblehead.

In February, 1962, authority was received to abandon two segments in Eastern Massachusetts totaling 6.7 miles. Applications to abandon two other segments totaling 6.05 miles are still pending before the I.C.C.

EQUIPMENT RENTALS

Rents payable in 1961 totalled $7,774,111 compared with $6,662,196 reported for 1960. Hire of freight equipment amounted to $7,192,332 as against $6,233,679 during 1960. In the first quarter of 1961 a series of snowstorms and prolonged cold weather adversely affected our operating costs, causing an increase in our net per diem costs on both railroad cars and highway trailers. In addition, equipment leased to other railroads during 1960, which contributed to the credit side of our per diem, was returned to our lines in 1961 and that credit therefore terminated.

The Annual Report for 1960 noted that the Supreme Court of the United States had upheld a District Court decision which found that the reasonableness of the freight car Per Diem rates had not been established and that the Interstate Commerce Commission had erred in failing to set forth in detailed findings its reason for rejecting a time-mileage plan, proposed by the Boston and Maine, as being more equitable than the plan approved by the Commission. The case was remanded by the Court to the Commission for further study. The study required all railroads to submit data concerning freight car ownership costs for the year 1960 and the Commission is still considering such data.

LONG-TERM DEBT CHANGES

Balance at beginning of year	$103,320,086
Increases:	
Collateral Trust Indenture dated January 1, 1961 due Serially to January 1, 1976	3,000,000
Collateral Trust Indenture dated August 29, 1961 due Serially to July 1, 1965	1,000,000
Equipment and Road-Property obligations account of new acquisitions	1,201,383
Total increases	5,201,383
Decreases:	
Equipment and Road-Property obligations paid	4,908,855
Principal payments made on Notes and Collateral Trust Indentures	2,825,000
Series SS, 6% Bonds paid off and retired (Annual Serial Maturity)	959,484
Total decreases	8,693,339
Net change during the year (decrease)	3,491,956
Balance at end of year	$99,828,130

GUARANTEED NOTES

On January 17, 1961, the Commission approved the Railroad's application of November 17, 1960, for guaranty of a loan of $3,000,000 under the provisions of Part V of the Interstate Commerce Act. On January 31, 1961, a loan was received under these provisions, and $3,000,000 aggregate principal amount of Boston and Maine Railroad 5% Guaranteed Notes due serially to January 1, 1976, were issued, with the Bankers Trust Company of New York as Trustee. The Collateral Trust Indenture dated January 1, 1961, provides for partial prepayments beginning on July 1, 1966, and on the first day of each and every January and July subsequent thereto in the principal amount of $150,000.

On May 31, 1961, application was filed with the Interstate Commerce Commission for guaranty of a loan from The First National Bank of Boston of $1,000,000 with interest at 4⅞% per annum, under the provisions of Part V of the Interstate Commerce Act, as amended. Closing of the loan and issuance of the note was effected on August 29, 1961. The note is due July 1, 1965, and requires prepayment of $25,000 quarterly on the fifteenth day of January, April, July and October in each year, commencing October 15, 1961, and also provides for an optional additional prepayment of $25,000 on those dates.

CONDITIONAL SALE AGREEMENT EXTENSIONS

The Interstate Commerce Commission presently has under consideration for guaranty under the provisions of Part V of the Interstate Commerce Act, as amended, an application filed on December 20, 1961, proposing refinancing of balance of payments of principal on two Conditional Sales Agreements aggregating about $5,700,000.

These two Conditional Sales Agreements cover 56 diesel freight locomotives and it is proposed that Equipment Trust Certificates be issued, with interest at 5% per annum.

Principal will be repaid quarterly at the rate of $25,000 per quarter; commencing April 1, 1962; through October 1, 1965. This will reduce present aggregate quarterly principal payments on the sum to be financed, from $244,858 to $25,000 through October 1, 1965, the period during which heavy payments on other equipment obligations are being made. Interest would also be reduced from slightly less than 5.9% to 5%, thus reducing fixed charges by over $50,000 annually.

Fixed Charges (Excluding Interest on Equipment Obligations)
For the Large Railroads of the U.S. For the Year 1960.
Figures for Boston and Maine are for the Year 1961

	Fixed Charges Excl. Interest on Equip. Obligations	*Percent Fixed Charges (Excl. Interest on Equip. Obligations) of Oper. Revenue*
Atch., Top. & S. F.	$ 5,799,611	0.94%
Atlantic Coast Line	5,253,176	3.24
Baltimore & Ohio	15,171,489	3.90
BOSTON & MAINE	3,935,216	5.96
Central RR of NJ	3,792,242	7.40
Chesapeake & Ohio	8,713,358	2.73
Chic. Burlington & Quincy	4,318,523	2.13
Chic. Milw., St. P. & Pac.	2,793,336	1.47
Chicago & North Western	2,079,515	1.18
Chicago, Rock Island & Pac.	2,428,918	1.15
Delaware & Hudson	1,121,010	2.59
Denver & Rio Gr. Western	1,221,271	1.60
Erie-Lackawanna	7,523,814	3.41
Great Northern	6,128,656	2.49
Gulf, Mobile & Ohio	1,552,152	2.02
Illinois Central	4,984,725	1.92
Kansas City Southern	1,579,417	3.67
Lehigh Valley	2,013,470	3.92
Louisville & Nashville	7,784,303	3.43
Missouri-Kansas-Texas	2,039,857	3.55
Missouri Pacific	11,585,096	3.90
New York Central	34,300,774	5.09
N.Y., Chic. & St. Louis	3,939,981	2.64
N.Y., N.H. & Hartford	5,176,398	3.86
Norfolk & Western	3,766,738	1.56
Northern Pacific	8,233,953	4.71
Pennsylvania	34,583,768	4.10
Reading	3,984,280	3.75
St. Louis-San Francisco	3,634,849	2.78
Seaboard Air Line	1,963,864	1.25
Southern Pacific	18,434,588	2.77
Southern Railway	9,351,817	3.58
Texas & Pacific	2,270,556	3.16
Union Pacific	4,065,156	0.82
Wabash	1,756,818	1.56
Western Pacific	639,589	1.22
Aggregate 36 Railroads	$237,922,284	2.88%

DEPRECIATION VERSUS ROADWAY AND EQUIPMENT MATURITIES (PRESENTLY OUTSTANDING)

As shown in the following tabulation non-cash charge for Roadway and Equipment Depreciation exceeds Roadway and Equipment Maturities in all years after 1963 and the total excess over the 11-years period is $18,092,524.

	Estimated Equipment Depreciation	*Estimated Roadway Depreciation*	*Total Roadway & Equipment Depreciation*	*Equipment Maturities*	*Roadway and Equipment Maturities*	*Total Roadway and Equipment Maturities*	*Excess Depreciation Over Roadway and Equipment Maturities*
*1961	$ 2,758,713	$ 1,639,395	$ 4,398,108	$ 4,622,677	$ 286,178	$ 4,908,855	$ 510,747(d)
1962	2,770,174	1,607,085	4,377,259	4,766,288	302,117	5,068,405	691,146(d)
1963	2,770,174	1,598,040	4,368,214	4,351,930	121,752	4,473,682	105,468(d)
1964	2,770,174	1,598,040	4,368,214	3,350,676	93,681	3,444,357	923,857
1965	2,770,174	1,598,040	4,368,214	2,510,754	67,681	2,578,435	1,789,779
1966	2,770,174	1,598,040	4,368,214	2,295,254	—	2,295,254	2,072,960
1967	2,770,174	1,598,040	4,368,214	1,920,646	—	1,920,646	2,447,568
1968	2,770,174	1,598,040	4,368,214	1,354,226	—	1,354,226	3,013,988
1969	2,770,174	1,598,040	4,368,214	1,344,262	—	1,344,262	3,023,952
1970	2,770,174	1,598,040	4,368,214	1,314,370	—	1,314,370	3,053,844
1971	2,770,174	1,598,040	4,368,214	1,294,277	—	1,294,277	3,073,937
Total	$30,460,453	$17,628,840	$48,089,293	$29,125,360	$ 871,409	$29,996,769	$18,092,524

d—Deficiency *—Actual

TAXES

Railway taxes aggregated $4,967,234 in 1961, as compared with $5,685,212 in 1960.

Federal income taxes in 1961 amounted to $193,759 and consisted entirely of taxes on leased lines rentals.

Payroll taxes for employee retirement, unemployment and sickness benefits amounted to $2,495,440 in 1961, compared with $2,738,234 in 1960, a net decrease of $242,794.

On January 1, 1962, the Railroad Retirement and Unemployment tax rates increased from 6¾% to 7¼%, and from 3¾% to 4%, respectively.

State and municipal taxes decreased $475,550.

The provision made for taxes is shown in the following table:

	1961	*1960*
State and Municipal Taxes	$2,254,589	$2,730,139
Federal Payroll Taxes	2,495,440	2,738,234
Federal Income Taxes	193,759	194,714
Other Taxes	23,446	22,125
Total	$4,967,234	$5,685,212

COMPARATIVE DEFICITS

In the tabulation that follows is shown the extent of the losses sustained by the Eastern Railroads last year. Only Boston and Maine and Pennsylvania were able to reduce their deficits before "other income" in 1961. For the eight railroads listed, the deficit before "other income" in 1961 exceeded 1960 losses by $20,994,219, or 14.9%.

Net Deficit Before "Other Income" Years 1961 and 1960
Eight Eastern Railroads, Including Boston and Maine

	Net Deficit		*Change*	
	1961	*1960*	*Amount*	*%*
Boston and Maine	$ 3,992,816	$ 4,617,087	dd$ 624,271	dd 13.5
Central RR of New Jersey	8,436,490	5,644,319	id 2,792,171	id 49.5
Erie-Lackawanna	30,625,475	23,670,429	id 6,955,046	id 29.4
Lehigh Valley	10,070,147	6,930,383	id 3,139,764	id 45.3
N.Y., N.H. & Hartford	28,223,026	24,990,645	id 3,232,381	id 12.9
New York Central	41,459,227	27,776,917	id 13,682,310	id 49.3
Pennsylvania	29,963,072	45,573,536	dd 15,610,464	dd 34.2
Reading	8,795,313	1,361,711	id 7,433,602	id 545.9
Total	$161,565,566	$140,565,027	id$21,000,539	id 14.9

dd—Decrease in Deficit. id—Increase in Deficit.

SYSTEMS AND RESEARCH

In 1961, a Systems and Research Department was established, combining the functions of Methods and Research, Research and Development, the Central Data Processing Division, Mechanized Car Reporting, and the Central Dictation Bureau, under A. J. Connell, Director.

The new department operates as a service to the Company for expediting cost reduction programs and for increasing productivity by assisting in the development of departmental short and long-range plans involving advanced methods and procedures.

All data processing operations were revised and updated. Computer programs were converted, refined and modernized to meet today's requirements. Many new mechanized procedures were added.

RESPONSIBILITY ACCOUNTING AND REPORTING

During 1960 a system of responsibility accounting and reporting for direct labor costs was developed and installed. The system proved effective as a management tool for the control of payroll expenses and it was decided that the system should be extended to include all items of expense.

Late in 1961 the Railroad began using this method of accounting for budgeting purposes.

EMPLOYEE RELATIONS

The Presidential Commission established by the President to investigate the requests of the nation's railroads for modernization of the complicated pay structure and rules governing the employment of operating personnel, as well as the counter-proposals of the brotherhoods representing such employees, concluded its hearings in October following eight months of nearly continuous session.

Aerial view shows close relationship of Boston and Maine's headquarters to the new Government Center and West End Developments in Boston. At (1) is North Station, flanked by the Industrial Building, with the Railroad's general offices, and Hotel Madison; (2) Registry of Motor Vehicles Building on Nashua Street; (3) Area (and to the right and continuing under 1) being cleared for West End Development and Government Center; (4) Newly completed apartment house units, first buildings to be completed in West End Development; (5) Boston Sand & Gravel Company's new, modern concrete processing plant in former passenger yards; (6) East Cambridge and Lechmere Development area; (7) Industrial development in former Yard 20; (8) Boston Engine Terminal. In left foreground is the State Capitol

The record and exhibits comprise the most exhaustive and complete study of these questions since World War I. The report was issued on Feb. 28, 1962, and it recommends possible solutions.

An increase of two per cent was made on March 1, 1961, in the pay scales of operating personnel. On the same date, improvements in the group insurance program, including for the first time group life insurance, at approximately equivalent cost, were made effective for non-operating employees. These changes were provided in national settlements made in 1960.

On September 1, 1961, the non-operating brotherhoods served national notices requesting (a) an increase of 25 cents an hour in rates of pay, and (b) a rule requiring six months advance notice of force reduction or abolishment of positions. The railroads served counter-proposals principally directed to reductions in the rates of less skilled crafts which, as the result of uniform cents-per-hour increases over the last 25 years, now exceed by a wide margin the rates paid by other industries. The case has progressed through negotiation and mediation without a settlement. It is anticipated the issues will be submitted to an Emergency Board with hearings beginning in the early part of March.

PERSONNEL CHANGES

At the Board of Directors Meeting on February 8, 1961, A. E. Harold Fair and Maurice A. Traverse resigned as Directors. Robert G. Bleakney, Jr., General Attorney of the Railroad, and Neal J. Holland, General Counsel of the Railroad, were elected to fill out their terms.

At the Board of Directors Meeting on June 21, 1961, Everett W. Smith resigned as a Director and Herbert W. Vaughan, partner in the law firm of Hale & Dorr, Boston, Massachusetts, was elected to fill out his term.

We regret to report the death of Director Alonzo R. Gile of Franklin, New Hampshire, which occurred on October 18, 1961. At the meeting of the Board of Directors on December 13, 1961, Loren A. O'Brien, General Manager, Merrimack Farmers Exchange, Inc., Concord, New Hampshire, was elected to fill out his term.

CONCLUSION

We extend our sincere gratitude to our employees for their continued cooperation during the past year.

Alvin D. Appleton
Chairman of the Board

Patrick B. McGinnis
President

ASSETS

	December 31 1961	December 31 1960
CURRENT ASSETS:		
Cash	$ 1,859,378	$ 2,400,717
U. S. Government bonds, at cost (approximate market)	–	1,084,375
Special deposits	163,554	122,032
Accounts receivable	5,452,447	5,956,279
Inventories of materials and supplies, at cost	3,450,624	3,949,032
Prepayments and other current assets	236,822	268,125
TOTAL CURRENT ASSETS	$ 11,162,825	$ 13,780,560
PROPERTIES (NOTE 2):		
Roadway and structures, including improvements to leased properties–$11,685,175 in 1961, $11,784,416 in 1960	$178,655,656	$183,888,442
Equipment	73,790,408	75,018,968
	$252,446,064	$258,907,410
LESS:		
Depreciation of roadway and structures	(6,846,915)	(9,647,554)
Depreciation of equipment	(20,099,088)	(18,833,453)
	$225,500,061	$230,426,403
Miscellaneous physical properties, less depreciation–$361,828 in 1961, $461,016 in 1960	3,218,013	2,665,646
	$228,718,074	$233,092,049
INVESTMENTS AND OTHER ASSETS:		
Investments in leased lines (Page 27)	$ 3,282,798	$ 3,107,837
Investments in and advances to subsidiaries and other affiliated companies (Page 27 and Note 1)	3,758,061	3,763,761
Other investments (Page 28)	1,268,904	3,337,200
Deposits with trustees for first mortgage bonds and equipment obligations	87,539	559,757
Other assets and deferred charges	4,115,456	3,100,472
	$ 12,512,758	$ 13,869,027
	$252,393,657	$260,741,636

BALANCE SHEET

LIABILITIES AND CAPITAL

	December 31 1961	December 31 1960
Current liabilities:		
Accounts payable	$ 9,349,837	$ 10,272,059
Accrued vacation pay	1,635,736	1,679,127
Accrued interest	1,601,563	1,833,469
State and local taxes	1,954,674	3,219,938
Estimated current portion of injury and damage claims	1,404,500	1,422,276
Total current liabilities (excluding long-term debt due within one year)	$ 15,946,310	$ 18,426,869
Long-term debt due within one year (Page 28):		
First mortgage bonds	$ 959,484	$ 959,400
Equipment and other obligations	5,368,405	5,044,625
	$ 6,327,889	$ 6,004,025
Long-term debt (Page 28):		
First mortgage bonds	$ 48,479,232	$ 49,438,800
Income mortgage bonds	18,826,500	18,826,500
Equipment and other obligations	26,194,509	29,050,761
	$ 93,500,241	$ 97,316,061
Other liabilities and deferred credits:		
Provision for disputed per diem charges (Note 4)	$ 7,755,213	$ 6,551,661
Provision for injury and damage claims	933,250	1,029,769
Accrued depreciation—leased property	1,963,586	1,870,497
Unearned interest accrued on income mortgage bonds	3,012,240	2,259,180
Other	1,650,664	2,990,324
	$ 15,314,953	$ 14,701,431
Capital and retained income:		
Capital stock (Note 5):		
5% Preferred stock, $100 par value:		
Authorized—256,776 shares in 1961		
Issued (excluding shares held in treasury)—251,510 shares in 1961, 256,910 in 1960	$ 25,151,000	$ 25,691,000
Common stock, no par value:		
Authorized—1,093,852 shares in 1961		
Issued (excluding shares held in treasury)—567,756 shares in 1961, 560,636 in 1960	56,775,650	56,063,650
	$ 81,926,650	$ 81,754,650
Additional capital (Note 6)	26,816,753	27,021,348
Retained income (Page 26 and Note 7)	12,560,861	15,517,252
	$121,304,264	$124,293,250
Contingent obligations and commitments (Note 8)		
	$252,393,657	$260,741,636

BOSTON AND MAINE RAILROAD
STATEMENT OF INCOME

	Year Ended December 31 1961	1960
OPERATING REVENUES:		
Freight	$ 56,133,995	$ 56,575,966
Passenger	5,138,071	5,872,616
Other	4,759,096	5,195,929
	$ 66,031,162	$ 67,644,511
OPERATING EXPENSES:		
Transportation	$ 29,865,797	$ 29,577,916
Maintenance of way and structures	6,874,295	7,734,455
Maintenance of equipment	8,892,531	10,254,102
Traffic, general and miscellaneous expenses	4,988,489	6,015,515
	$ 50,621,112	$ 53,581,988
NET REVENUE FROM RAILWAY OPERATIONS	$ 15,410,050	$ 14,062,523
OTHER OPERATING CHARGES:		
Payroll, property and state excise taxes, etc.	$ 4,967,234	$ 5,685,212
Net rents for equipment and joint facilities	7,774,111	6,662,196
	$ 12,741,345	$ 12,347,408
NET OPERATING INCOME	$ 2,668,705	$ 1,715,115
NONOPERATING INCOME—NET	11,228	19,609
NET INCOME BEFORE FIXED CHARGES AND CONTINGENT INTEREST	$ 2,679,933	$ 1,734,724
FIXED CHARGES:		
Rent for leased lines, etc.	$ 474,930	$ 474,930
Interest:		
First mortgage bonds	2,973,641	2,523,278
Equipment trust certificates	636,535	699,123
Conditional sale contracts	634,839	757,305
Other	397,738	314,581
Amortization of long-term debt discount and expense	88,906	59,656
	$ 5,206,589	$ 4,828,873
NET LOSS BEFORE CONTINGENT INTEREST	($ 2,526,656)	($ 3,094,149)
CONTINGENT INTEREST	753,060	753,060
NET LOSS	($ 3,279,716)	($ 3,847,209)

STATEMENT OF RETAINED INCOME

	1961	1960
BALANCE AT BEGINNING OF YEAR	$ 15,517,252	$ 24,692,638
ADDITIONS (DEDUCTIONS) FOR THE YEAR:		
Net loss	(3,279,716)	(3,847,209)
Adjustment of accumulated depreciation of equipment resulting from abnormal retirements	–	(3,062,441)
Net gain (loss) on disposal of land	1,906,219	(82,314)
Track retirements	(1,578,384)	(2,285,937)
Adjustment of prior years' provisions for injury and damage claims	–	(25,000)
Other	(4,510)	127,515
BALANCE AT END OF YEAR	$ 12,560,861	$ 15,517,252

BOSTON AND MAINE RAILROAD
STATEMENT OF INVESTMENTS IN LEASED LINES
DECEMBER 31, 1961

	No. of shares owned	*% owned*	*Cost*	*Approximate value based on current market quotations*
Northern Railroad	17,622	57.4	$1,893,901	$1,235,000
Stony Brook Railroad	1,362	45.4	118,395	90,000
Vermont & Massachusetts Railroad	10,935	34.2	1,270,502	775,000
			$3,282,798	$2,100,000

The shares in leased line companies have been acquired over the period from 1937 to 1961. At December 31, 1961 all of the shares were pledged to secure long-term debt. Annual rentals of the leased lines, under long-term leases, amount to approximately $405,000 plus federal and state taxes of the leased line companies which currently aggregate about $250,000 per year. Dividends received from the leased line companies amounted to $170,000 in 1961 and $160,000 in 1960.

STATEMENT OF INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND OTHER AFFILIATED COMPANIES
DECEMBER 31, 1961

	Investments in capital stocks	*Notes and advances*	*Total investments and advances*	*Approximate net assets of subsidiaries per books*
WHOLLY-OWNED SUBSIDIARIES:				
Boston & Maine Transportation Company (a)	$100,038	$1,082,065	$1,182,103	$ 600,000
North Station Industrial Building, Inc. (a)	1,002	673,444	674,446	1,550,000
North Station Hotel Building, Inc. (b)	100	150,000	150,100	110,000
The Mystic Terminal Company	5,000	80,000	85,000	85,000
Springfield Terminal Railway Company (a)	186,030	—	186,030	350,000
Charlestown Waterfront Facilities, Inc.	300,000	43,030	343,030	320,000
Pine Tree Corporation	50,000	—	50,000	35,000
Connecticut River Valley Company, Inc.	165,000	5,722	170,722	175,000
B & M Railroad Radio Co., Inc.	1,000	—	1,000	1,000
	$808,170	$2,034,261	$2,842,431	$3,226,000
OTHER AFFILIATED COMPANIES:				
Railway Express Agency, Inc. (a)	2,300	665,058	667,358	
Pullman Company	190,772	—	190,772	
Trailer Train Company	50,000	—	50,000	
Troy Union Railroad Company (25% owned)	7,500	—	7,500	
	$1,058,742	$2,699,319	$3,758,061	

(a) The capital stocks of Boston & Maine Transportation Company, North Station Industrial Building, Inc. and Springfield Terminal Railway Company and notes of Boston & Maine Transportation Company ($300,000), North Station Industrial Building, Inc. ($518,444) and Railway Express Agency, Inc. ($665,058) are pledged to secure long-term debt.

(b) The capital stock of North Station Hotel Building, Inc. is pledged to secure indebtedness of this subsidiary.

BOSTON AND MAINE RAILROAD
STATEMENT OF LONG-TERM DEBT
DECEMBER 31, 1961

	Portion Due	
	Within one year (a)	*After one year (a)*
First mortgage bonds (b):		
Series SS, 6%, due serially to August 1, 1965	$ 959,484	$46,055,232
Series AC, 5%, due September 1, 1967	–	2,424,000
	$ 959,484	$48,479,232
Income mortgage bonds, Series A, 4½% (4% cumulative), due July 1, 1970 (c)	$ –	$18,826,500
Equipment and other obligations:		
Equipment Trust Certificates, Series I, 4½% to 6% due March 1, 1971, secured by equipment of an aggregate original cost of $23,588,000	$1,234,000(d)	$11,106,000
4⅞% and 5% Guaranteed Notes due 1965 to 1976 secured by $1,866,900 principal amount of Series SS bonds, capital stock of leased lines, capital stock and notes of subsidiary and affiliated companies (Page 27) and "other investments" carried at cost of $941,850.	300,000	6,175,000(e)
Conditional sale contracts maturing at various dates from January, 1962 to October 1971, secured by equipment of an aggregate original cost of $41,206,000	3,834,405	8,913,509(e)
	$5,368,405	$26,194,509
	$6,327,889	$93,500,241

(a) Amounts outstanding are exclusive of bonds owned by the Railroad—$1,866,900 of Series SS bonds pledged against guaranteed notes, $641,000 of Series AC bonds held by the first mortgage trustee, and $436,000 of income mortgage bonds which are unpledged.

(b) The first mortgage bonds are secured by substantially all the road properties and equipment of the Railroad, its operating franchises, leases and agreements, and its investment in the capital stock of Troy Union Railroad Company, subject to the prior lien of equipment trust obligations and conditional sale contracts in the case of certain property and equipment as indicated in the statement above. Interest is payable semiannually at the indicated rates for the two series. The Series SS bonds mature serially in annual principal amounts of $959,484 on August 1 of the years 1962 through 1964 and the remainder on August 1, 1965. The Series SS bonds due August 1, 1965 are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before May 1, to deposit with the trustee $459,000 in cash or Series SS bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" (as defined in the indenture) is sufficient.

(c) The income mortgage bonds are secured by a second mortgage on the same properties as those securing the first mortgage bonds. Interest is payable at the rate of 4½% per annum if "available net income" is sufficient and,, if not earned, is cumulative and payable not later than the maturity of the bonds at the rate of 4% per annum. The income mortgage bonds are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before September 1, to deposit with the trustee $483,000 in cash or Series A bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" is sufficient.

(d) The same amount matures within each subsequent year to maturity.

(e) Payable at varying amounts each year to maturity. Information pertaining to the possible refinancing of approximately $5,700,000 principal amount of conditional sale contracts is set forth on page 18.

NOTES TO FINANCIAL STATEMENTS

Note 1—Subsidiary Companies

The accompanying financial statements are those of the Boston and Maine Railroad without consolidation of the assets, liabilities and operating accounts of certain wholly-owned subsidiaries of the Railroad engaged in truck transportation, real estate, hotel and other types of operation. The investments in and advances to these subsidiaries are shown on Page 27. The excess of losses over profits from the operation of the subsidiaries, amounting to approximately $326,000 in 1961 (based on preliminary estimates), is not reflected in the accompanying statement of income.

Note 2—Properties

The amounts shown in the balance sheet for properties represent the aggregate of acquisitions and additions (by merger, purchase, construction or otherwise), less retirements, recorded under the system of accounting prescribed by the Interstate Commerce Commission. In accordance with such accounting requirements the Railroad commenced providing for depreciation on roadway and structures (other than properties such as rail, ties, ballast and other track materials) on January 1, 1943. The recorded cost, less salvage, of such properties retired is charged to the depreciation reserves.

With respect to rails, ties, ballast and other track materials, included in the roadway accounts in the amount of approximately $43,800,000 at December 31, 1961, the Railroad follows the prescribed practice of "replacement" accounting. For many years this accounting practice has been considered an acceptable alternative in the railroad industry to the more widespread practice of depreciation accounting. Under this practice replacements in kind are charged to maintenance expense and only improvements and additions are capitalized. The amounts capitalized are not depreciated. Retirements of such properties, less salvage, are also charged to maintenance expense, except that in recent years certain retirements which were considered abnormal have been charged direct to retained income. Gains and losses on disposals of land are credited or charged to retained income.

The accompanying statement of income includes charges for depreciation totaling $4,437,000 in 1961 and $4,585,000 in 1960.

Note 3—Federal Income Taxes

As of December 31, 1961 the Railroad had loss carry-overs for federal income tax purposes aggregating approximately $42,000,000 of which about $1,200,000 would be available to apply against income through the year 1962, $7,500,000 through 1963, $15,800,000 through 1964, $11,500,000 through 1965 and an estimated amount of $6,000,000 through 1966.

Note 4—Provision for Disputed Per Diem Charges

The Boston and Maine Railroad is party to a dispute with other railroads over per diem rates for car rentals. For various reasons, including its situation as a so-called terminal line, the Railroad incurs more rentals than it earns. For several years payment has been made to other railroads at rates which are less than the rates adopted by the Association of American Railroads although full provision has been made on the books at the adopted rates, all by charges against income. The excess of amounts thus provided for on the books amounted to $7,755,213 as of December 31, 1961. The excess of amounts accrued and charged to income over payments amounted to $1,203,552 in 1961 and $1,065,319 in 1960. Further information concerning this dispute is set forth on Page 17.

Note 5—Capital Stock and Stock Options

The 5% Preferred Stock is redeemable at any time at $100 per share plus accumulated unpaid dividends, and is convertible at the option of the holder into common stock at the rate of 1¾ shares of common stock for each share of preferred stock. During 1961, 5,400 shares of preferred stock were converted into 9,450 shares of common stock. Dividends on preferred stock, if not paid, are cumulative only if and to the extent (not exceeding 5% per annum) that earnings are available. On this basis there were no cumulative unpaid dividends at December 31, 1961. If earnings are sufficient, the Railroad is required to set aside annually one half of one per cent of the par value of the authorized preferred stock as a sinking fund for redemption of preferred stock, before dividends are paid on the common stock. There was no cumulative sinking fund obligation as at December 31, 1961.

At December 31, 1961 there were outstanding options granted to certain employees to purchase 59,580 shares of common stock of the Railroad at prices ranging from $6 to $16 per share or an aggregate of $585,000. Options were then exercisable for 40,353 shares at an aggregate of $421,000. During 1961 options were granted for 10,000 shares at $6 per share; no options were exercised during the year. Options generally become exercisable in instalments over a five year period and remain exercisable until ten years after the date of the grant.

Pursuant to authorization by the common stockholders in April 1960, the authorized common stock was increased during the year from 1,078,852 shares to 1,093,852 shares to carry out the stock option plan.

Note 6—Additional Capital

The additional capital account decreased by $204,595 during 1961. This decrease comprised a charge to additional capital of $405,000 in connection with the conversion of 5,400 shares of preferred stock into common stock and a credit of $200,405, representing the excess of stated value over cost of 2,330 shares of common stock transferred to the Railroad during the year as a result of the termination of a trust established in prior years for the benefit of employees.

Note 7—Restrictions on Dividends and Additional Borrowings

The indentures securing the first mortgage bonds, the income mortgage bonds and the guaranteed notes contain various restrictive provisions under which, at December 31, 1961, the Railroad could not pay dividends on or make purchases of any class of its capital stock. The indenture securing the first mortgage bonds also contains restrictions on additional borrowings.

Note 8—Contingent Obligations and Commitments

In addition to the matters referred to elsewhere in the financial statements and notes, the Railroad had the following contingent obligations and commitments at December 31, 1961:

The Railroad rents approximately 3,000 freight cars under long-term leases which expire at various dates to 1970. Current annual rentals under the various leases amount to approximately $990,000. Certain of these leases provide options to renew for substantially lower rentals after the initial terms.

Together with other participating railroads, the Railroad has guaranteed repayment of equipment obligations of Trailer Train Company.

Under certain conditions the Railroad is required to make additional payments under a service interruption insurance policy carried jointly with other railroads. Payments during 1961 amounting to approximately $150,000 are included in the accompanying statement of income.

Employment agreements covering periods of up to ten years have been entered into with certain officers. The current annual amount of compensation under these agreements is approximately $175,000.

The Railroad is plaintiff or defendant in numerous lawsuits and subject to other claims in connection with personal injuries, property damages and other matters. Provision for liabilities thereunder included in the financial statements is believed to be adequate.

At December 31, 1961 the unfunded past service credits of the Railroad's retirement income plan amounted to approximately $1,200,000.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of the
Boston and Maine Railroad

We have examined the balance sheet of the Boston and Maine Railroad as of December 31, 1961 and the statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The depreciation reserves for roadway and structures, accumulated under accounting practices prescribed by the Interstate Commerce Commission as briefly explained in Note 2 of the notes to financial statements, are substantially less than reserves which would have resulted from a systematic method of depreciating the cost of all such properties from the time they were acquired. This deficiency has been aggravated by the fact that such reserves as have been provided have been substantially reduced or, for certain classes of assets, eliminated entirely by charges for retirements which have been unusually large in recent years. The roadway and structures accounts of the Railroad still include substantial amounts for branch lines which produce a relatively small portion of the present total revenues, and it is likely that further substantial retirements can be anticipated in the future. We have concluded that neither the current depreciation rates for property which is being depreciated, nor the "replacement" accounting method for rails, ties, etc., described in Note 2, provides adequately for obsolescence of the extent experienced by this railroad.

In our opinion, except for the inadequacy of reserves for depreciation and obsolescence discussed above, the financial statements referred to above present fairly the financial position of the Boston and Maine Railroad at December 31, 1961 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Boston, Massachusetts
March 10, 1962

A detailed financial and statistical supplement to this Report is available. For copies, please address: Maynard W. Bullis, Boston & Maine Railroad, Boston 14, Massachusetts